



LEGAL SERVICES CORPORATION

Financial Guide for Grantees

AGENCY: Legal Services Corporation.

ACTION: Request for comments.

SUMMARY: The Legal Services Corporation (“LSC”) is updating its Financial Guide (“Guide”) for grantees. LSC previously sought comment on the revised Guide and is now seeking additional comments on discrete changes to the Guide.

DATES: All comments and recommendations must be received on or before the close of business on January 31, 2022.

ADDRESSES: You may submit comments by any of the following methods.

Instructions: Electronic submissions are preferred via email with attachments in Acrobat PDF format. LSC may not consider written comments sent via any other method or received after the end of the comment period.

Email: financialguide@lsc.gov. Please include “Financial Guide Comment” in the subject line of the message.

Fax, U.S. Mail, Hand Delivery, or Courier: Please call 202-295-1563 for instructions if you need to send materials by one of these methods.

FOR FURTHER INFORMATION CONTACT: Stefanie K. Davis, Senior Assistant General Counsel, (202) 295-1563, or sdavis@lsc.gov.

SUPPLEMENTARY INFORMATION: The Legal Services Corporation (LSC) has conducted a comprehensive review of the *Accounting Guide for LSC Recipients, 2010 Edition*. Based on input from LSC grantees and LSC’s fiscal compliance analysts, LSC believes that the format of the Accounting Guide no longer best serves grantees or LSC. LSC has restructured the document and renamed it the *Financial Guide*. The new draft *Financial Guide* removes outdated or inapplicable materials, improves materials

directly related to LSC-specific issues, and adds clarity about both required and recommended financial practices. The draft *Financial Guide* also addresses areas that were previously identified as problematic or complex, such as cost allocation, and assists grantees in the financial management of LSC grants. Overall, the draft *Financial Guide* conforms to existing LSC and grantee practices and requirements. Additionally, in some places, the draft *Financial Guide* sets out requirements that previously have not been published for comment.

LSC originally sought comment on the comprehensive revisions to the *Financial Guide* via a notice published in the *Federal Register* on July 7, 2020. 85 FR 40688 (July 7, 2020). LSC received 38 unique comments on the draft Financial Guide from five grantees and the National Legal Aid and Defender Association on behalf of itself and its LSC grantee members. Generally, the commenters suggested clarifications and requested that LSC make many of the proposed requirements into recommendations to accommodate the diversity of grantee sizes, fiscal sophistication, and resources.

LSC conducted a thorough review of the entire draft and all comments. In most cases, LSC agreed with the comments and changed 17 proposed requirements into recommendations. Additionally, LSC removed five requirements related to audits and accounting. These changes align with the new scope of the Financial Guide to focus on providing guidance related to LSC rules and regulations—including those pertaining to internal controls—and not technical audit and accounting-specific requirements. LSC also added clear definitions that “must” and “shall” state requirements, but “should” states a strong recommendation. For all required items, grantees can opt to use different methods of reaching the goal, subject to LSC’s determination that the alternatives are sufficient.

OCE also identified several current requirements that had not appeared in the prior version of the Financial Guide that was published for comment. These are

requirements that LSC has been applying through required corrective actions and most, perhaps all, grantees have already implemented. OCE also added some requirements and recommendations related to “high-risk” areas, such as cost allocation and employee expense reimbursements.

LSC has published the revised draft *Financial Guide* for comment on the Matters for Comment page at www.lsc.gov. LSC is seeking comment only on the areas identified below as new requirements or substantive revisions to the version of the Financial Guide for which LSC sought comment in 2020.

Newly Identified Requirements

Section 1.3—Recipient Responsibility

This new section contains general statements moved from other sections that grantees must keep their financial policies and procedures up to date with accounting standards and changes to LSC requirements (such as regulations, the Audit Guide, etc.). This new section also contains a statement that “Any policies and procedures implementing the requirements of this Guide must be written and approved by the recipient’s governing body.” LSC already requires grantees to obtain governing body approval of their policies and procedures through policy reviews during competitive assessments and required corrective actions after a fiscal review. The following sections are all affected by this requirement:

Section 2.1.1.a—Accounting System Capabilities

Section 2.2.2—Payroll

Section 2.2.3—Reconciliations

Section 2.3.1 – Document Integrity

Section 2.5.3—Electronic Data Processing and Cybersecurity (Board approval of policy is new)

Section 3.1.4—Derivative Income

Section 3.2.1—Bank Accounts

Section 3.2.2—Cash Receipts

Section 3.2.3—Investments (if applicable)

Section 3.2.4—Cash Disbursements

Section 3.2.6—Client Trust Accounts

Section 3.4—PAI. This section now clearly states that the financial accounting of the 12.5% expenditure for the PAI requirement must be in policies and procedures that are written and board approved, the same as other financial policies and procedures.

Section 3.5.1—Procurement and Contracting (Board approval of policy is new)

Section 3.6—Property and equipment

Section 3.7—Cost Principles (Board approval of policy is new)

Section 3.8—Subgrants. The grantee's policies and procedures regarding the financial accounting for subgrants must be written and board approved. For subrecipients, it now states that "Recipients must ensure that subrecipients have written policies and procedures consistent with applicable LSC requirements, including this Guide." Part 1627 provides flexibility for subrecipients' financial accounting to reflect the amount of the subgrant and capacity of the subrecipient. The relationship between the recipient and subrecipient will determine the proper method of financial reporting following generally accepted accounting principles. 45 CFR 1627.4(f)(1)(i).

Section 2.1.1—General Accounting System Requirements

This section now provides more specifics about the general accounting system requirements. Most, if not all, grantees already meet these requirements, which are items that LSC already requires grantees to adopt in required corrective actions after a fiscal review.

2.2.2—Time and Attendance (Payroll)

This section now provides more specific requirements for formal payroll policies and procedures including time and attendance records, use of a payroll register, and review of payroll before processing and payment.

3.2.1—Bank Accounts

This section now explicitly requires documentation and tracking of all bank accounts opened and closed (e.g., purpose, authorized signatory, custodian, opening date, and closing date) within the last three years.

3.2.1.b—Electronic Banking

This section now requires recipients to conduct a risk assessment of electronic banking policies and procedures, with Board oversight, to identify areas requiring additional safeguards.

3.2.4.a—Employee Expense Reimbursements

This new section requires grantees to have written and well-defined expense reimbursement policies and procedures. It also provides a number of recommendations for those policies.

3.2.5—Petty Cash

This section now explicitly requires a monthly reconciliation of all petty cash funds and identification of all required supporting documentation. Also, the section now requires that policies describe all allowable uses of petty cash.

3.6.3—Disposal of Property and Equipment

This new section references the Part 1631 requirements for disposal of real and personal property. It also requires that the grantee's policies include "disposal procedures, controls, and documentation requirements."

New Recommendations

Section 2.3.2—Document Destruction

This section “strongly encourages recipients to develop and implement a policy (in accordance with their record retention policy) to address the proper destruction of documents and data.”

Section 3.2.4—Cash Disbursements

This section now states that “Recipients may consider additional control measures related to higher risk disbursements (e.g., require a second check signer for amounts over a certain threshold).”

Significant Clarifications

LSC reorganized several sections to group items together more logically, provide clearer explanations, and better identify areas of risk. The following sections had notable updates.

2.1.1.a—Accounting System Capabilities

This section now provides a detailed bullet list of basic capabilities of an adequate accounting system involving collecting, allocating, tracking, documenting, and reporting financial information.

3.7.1—Cost Allocation

This section now provides a detailed bullet list of basic requirements for cost allocation policies to better illustrate the cost allocation requirements proposed in the published draft Financial Guide.

2.5.3—Security for Data and Records Including Electronic Data Processing and Cybersecurity

This section combines information from scattered sections in the previous draft to more clearly require grantees to “have written security policies and procedures for physical and digital assets including all financial data and records in any form (e.g., electronic data processing (EDP) and cybersecurity policies and procedures).”

Furthermore, LSC recommends in this section that “These policies and practices should

be part of an overall data and records security policy and an annual overall risk-assessment process.” Finally, LSC provides in this section a bullet list of issues that these policies must address, including a risk assessment at least annually and resolution of risk findings or conclusions.

Dated: December 10, 2021.

Stefanie Davis,

Senior Assistant General Counsel.

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